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The Impact of the 1990 Farm Bill on Nebraska

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The Food, Agriculture, Conservation and Trade Act (FACTA) of 1990 was signed into law by President Bush last November 28. This latest farm bill continues a 60 year tradition of providing a financial safety net for farmers. But FACTA is much more than a safety net. With 25 major titles or sections, FACTA is the longest, most comprehensive farm bill in history. Few parts of the U.S. agriculture/food system are untouched by the act.

Like other farm bills, FACTA is evolutionary. Many provisions of FACTA build on those contained in the Food Security Act of 1985.

Price and Income Supports

Take the basic farm price and income support system, for instance. Wheat and feed grains (corn, grain sorghum, barley, and oats) will continue to be supported by a combination of nonrecourse loans and target prices. In 1991 the national nonrecourse loan rate is $2.04/bushel for wheat and $1.62/bushel for corn. Producers may obtain loans from the federal government at these levels. If the market fails to rise above these respective loan levels, the federal government will assume ownership of the commodity in full payment of the loan. The government's willingness to be a buyer of last resort effectively establishes a price floor at the loan level.

Although nonrecourse loan rates in 1991 are a few pennies higher than last year, even casual observers of the agricultural sector know that prices at the loan level would not be good news for Nebraska agriculture. Most producers would experience losses because production costs have continued to escalate. Thus, income supports are the key farm program variable for most producers. Since 1973 payments have been provided to producers through a target price mechanism.

FACTA freezes target prices at 1990 levels for the 1991-1995 period. For wheat, the target price is $4.00/bushel; for corn, $2.75. The federal government will pay a direct income supplement or deficiency payment on the difference between the target price and the higher of the nonrecourse loan level or the average market price. Thus, in the case of wheat, the deficiency payment may be as high as $1.96/bushel ($4.00 - $2.04). For corn, the payment could be as much as $1.13 ($2.75 - $1.62). If the average market price exceeds the loan level, deficiency payments will be less.

State Economic Scoreboard

Change from same month one year ago
See Review and Outlook for more details

	State	Metro+	Nonmetro
Motor Vehicle Sales (February) Constant $	-9.3%	-8.9%	-9.6%
Nonmotor Vehicle Sales (February) Constant $	1.0%	-0.9%	3.1%
Building Activity (February) Constant $	-16.1%	-22.5%	-4.7%
Employment (April)	2.8%	3.5%	2.2%
Unemployment Rate* (April)	2.4	2.4%	2.4%

+Omaha and Lincoln. *Unemployment is this month's rate, not a percent change from year ago

Deficiency payments (and nonrecourse loans) are available only to producers who voluntarily participate in acreage reduction programs. In 1991, for example, wheat producers have had to retire 15 percent of their wheat base from production to be eligible for program benefits. The corn acreage adjustment requirement is 7.5 percent.

By retiring a designated portion of the production base, commodity supplies should be lower. Reducing the production base raises market prices. But in recent years, prices generally have been less than target prices which has resulted in some sizeable deficiency payments. In 1987, for example, a record $1.066 billion was paid to Nebraska producers. Another $1 billion-plus year was recorded in 1986. Even though payments have declined somewhat in recent years, the total for 1990 crops already has reached $529 million, with some further payments for last year's crops possible later in 1991.

In short, deficiency payments are big business in Nebraska. Moreover, their importance extends beyond farm families. Any reduction in deficiency payments not offset by higher market prices or loan rates will be multiplied through the state's economy. At first blush, it may appear that there is no reason to give a second thought to the magnitude of deficiency payments over the next five years. After all, target prices have not been changed and the basic operating mechanism remains in place. There are, however, several reasons to be cautious.

First, total deficiency payments are a function not only of the payment rate per bushel, but of the number of bushels on which payment will be made. As a part of last year's omnibus budget reconciliation, the congressional agriculture committees were directed to reduce farm program spending $13.8 billion over the next five years. Such cuts will be accomplished primarily by reducing the number of acres (and, ultimately, bushels) on which deficiency payments will be made 15 percent. Although this provision is made somewhat more palatable by allowing almost any crop to be planted on nonpayment acres, total payments and farm cash flows seem sure to be affected negatively. The greater the payment rate per bushel, the more the loss of 15 percent of the payment acres will be felt.

Second, even though nominal target prices will remain unchanged through 1995, real target prices will decline because of inflation. The higher the inflation rate, the less protection will be provided by target prices not adjusted for inflation. This scenario will contrast sharply to the 1970s and the first half of the 1980s when target prices were adjusted to provide considerable inflation protection.

Finally, at least a slight possibility exists that target prices will have to be reduced from current levels to abide by the requirements of a new international trade agreement on agriculture (GATT). The U.S. price and income support system is viewed by much of the world as trade-distorting. Thus, even though FACTA is in place for the next five years, U.S. negotiators may be forced to agree to a reduction in supports in exchange for trade concessions by our competitors. Continued domestic budget pressures could be a catalyst for such action as well. The history of farm bills is that amendments relating to support levels do occur within the multiple year life of specific acts. Amendments could happen again.

Conservation of Natural Resources

If price and income supports are an old theme in farm bills, an intense focus on conserving soil and water resources is relatively new. Although lip service has been given to conservation since the 1930s, the real push for stronger conservation provisions in farm bills began in 1985. The Conservation Reserve Program (CRP) was initiated at that time, with the government providing annual rental payments to producers who agreed to take land sensitive to wind and water erosion out of production for ten years. Approximately 34 million acres nationally (and over one million acres in Nebraska) were committed to the program in its first five years. FACTA continues CRP, with a new national goal of 40 million to 45 million acres in the program.

If the CRP was a carrot for addressing soil erosion, another 1985 provision was a stick. Producers on highly erodible land were required to submit a plan for controlling erosion by January 1, 1990. The plan is to be fully implemented by January 1, 1995. Failure to meet these deadlines makes producers ineligible for an array of government benefits, including the price and income supports discussed above. The highly erodible land provisions were continued in 1990, with an expanded list of government benefits to be denied for those who failed to comply.

The new farm bill's conservation provisions, however, do not stop with an update of the 1985 law. In general, one perceives much more of a comprehensive approach to conservation and environmental issues in FACTA.

For instance, the objective of a new wetlands reserve program is to retire one million acres of wetlands from production. Water fowl and other wildlife are expected to be the primary beneficiaries. At the same time, farmers who attempt to alter wetlands by draining or filling will have program benefits denied, much the same as for the highly erodible lands.

A new integrated farm management program is potentially beneficial to both the conservation of natural resources and the environment. Participating producers will be eligible for regular deficiency payments if they

keep at least 20 percent of the crop base in resource-conserving crops, primarily legumes and legume-grass mixtures. This program also is expected to encourage greater rotation of crops.

A water quality incentive program, which will become operational in 1992, will provide special incentives to producers to minimize groundwater contamination. The program should be of particular interest to producers in areas of Nebraska where seepage of nitrates and pesticides into the groundwater has been an ongoing problem.

Concluding Comments

Agricultural producers are always interested in the details of a new farm bill. But other citizens should be knowledgeable about the 1990 act as well. Cash flows in rural communities and the environment (broadly defined) are two of the biggest issues that we Nebraskans collectively face. Citizens should recognize that the legislation also addresses subjects as diverse as food stamps, agricultural research, and crop insurance. There is a little something for almost everyone in the Food, Agriculture, Conservation and Trade Act of 1990.

Is America Failing to Save Enough?

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The question of whether there is a shortfall of saving in the American economy is a frequent media topic. It is an important question, as how much we save affects such crucial variables as investment, productivity, and the nation's future level of material well-being.

Like many issues in economics, the question is not as simple as one may suppose. The question does not yield a quick yes or no answer. This and a subsequent *Business in Nebraska* article will explore several facets of the question.

From the perspective of the nation, saving represents the dollar value of resources available for investment in physical capital in the form of structures and equipment. Statistically, the quantity of resources available for investment is the difference between national saving and net foreign investment.

National saving is equal to private saving by businesses and individuals plus net saving by all units of government. Government saving is positive if governments overall have a surplus of tax collections over expenditures and negative if expenditures exceed tax collections.

Net foreign investment is the difference between exports and imports of goods and services. When positive—exports are greater than imports—domestic saving is being invested abroad. When negative—imports exceed exports—foreign saving is flowing into the country.

Table 1 shows total resources, national saving, private saving, government saving, and net foreign investment as a percent of the Gross National Product (GNP) for 1980 through 1990. These data offer significant insight into the issue of the nation's saving behavior.

Total Resources

Several important conclusions about saving behavior in the United States can be drawn from these data. Other than during the recessions in 1982 and 1990, there has been no significant decline in the quantity of resources available for investment in new capital. As column (1) shows, total resources for investment averaged 15.5 percent of GNP; yearly figures were close to this average most of the time between 1980 to 1990.

National Saving

Column (2) for national saving tells a different and more alarming story. There is clear evidence of a decline, as the ratio of national saving to GNP dropped from a high of 17.1 percent in 1981 to a low of 12.0 percent in 1990. These figures lead to fears that the nation is failing to save enough.

Private Saving

The story behind the decline in national saving is told by the figures in columns (3) and (4). Column (3) records a relatively steady decline in private saving, again from a high of 18.0 percent of GNP in 1980 to a low of 14.3 percent in 1990. The reason for this decline lies almost entirely with the consumer. During the

Table 1
Total Resources, National Saving, Private Saving, Government Saving, and Net Foreign Investment 1980-1990
(in percent of GNP)

Year	(1) Total Resources	(2) National Saving	(3) Private Saving	(4) Government Saving	(5) Net Foreign Investment
1980	15.8%	16.2%	17.5%	-1.3%	0.5%
1981	16.8	17.1	18.0	-0.9	0.3
1982	14.1	14.1	17.5	-3.5	—
1983	14.6	13.6	17.4	-3.8	-0.9
1984	17.5	15.1	17.9	-2.8	-2.4
1985	16.1	13.3	16.3	-3.3	-2.8
1986	15.6	12.4	15.8	-3.4	-3.2
1987	15.7	12.3	14.7	-2.4	-3.4
1988	15.9	13.5	15.4	-2.0	-2.3
1989	15.2	13.3	15.0	-1.7	-1.9
1990	13.7	12.0	14.3	-2.3	-1.6
Average	15.5%	13.9%	16.3%	-2.5%	-1.6%

Source: Economic Report of the President, 1991

1980s, personal saving as a percentage of consumer disposable income dropped from 7.5 percent in 1981 to a low of 2.9 percent in 1987. Personal saving rebounded to 4.5 percent of disposable income in 1990, but this figure is well below what it was at the beginning of the decade. Business saving, on the other hand, did not change significantly during the 1980s.

Government Saving

Column (4) is another crucial piece of the puzzle. The figures in this column are negative for each year in the period, which tells us that governments ran deficits throughout the 1980s. Most state and local governments had surpluses during the 1980s, but these were outweighed by the deficits of the federal government. Thus, governments were a net drain on national saving. (National saving is equal to the sum of private saving plus or minus the surplus or deficits of governments.) For the period as a whole, government deficits absorbed an amount of private saving equal to 2.5 percent of GNP. This is not a small figure.

Net Foreign Investment

Finally, we have column (5), net foreign investment. This column, too, is negative for most of the years between 1980 and 1990. This means that foreign saving was flowing into the nation—during the 1980s we became net borrowers, rather than net lenders as we had been during all of the prior years in the post-World War II era. It was only this massive influx of foreign saving that kept total resources available for investment—column (l)—at the level shown. Without the influx of foreign funds, the economy would have been in worse shape as far as saving is concerned. Because of the influx of net foreign investment, the slide in relative size of total resources was held to 13.3 percent. As can be seen in the national saving figures, the slide in the relative size of total resources without the change in net foreign investment would have been 26.1 percent.

So what are we to conclude? Americans are saving less, mostly because of a decline in personal saving rather than because of any drop in business saving. More serious, however, is the extent to which private saving is being absorbed by the deficits of the public sector and the degree to which we have become dependent upon foreigners to supply resources for investment. These latter two developments do not bode well for the future health of the economy.

After having taught at the University of Nebraska-Lincoln for over 40 years, Dr. Peterson retired in May 1991. Dr. Peterson, the George Holmes Professor of Economics, not only taught generations of students, but also stimulated and continues to stimulate his colleagues at the University and in the academic community.

Why Alan Can't Do It All

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It is disappointing that the recent public controversy over Federal Reserve monetary policy has focused almost exclusively on short-term interest rates, because such rates are unreliable indicators of economic conditions and an inappropriate target for the Fed. Alan Greenspan, chairman of the Federal Reserve Board, continues to be pressured to lower interest rates in order to alleviate the current recession, but it is questionable whether the Fed has the power to lower the rates that really matter.

Rates of Disinterest

There are several reasons why the Fed does not have absolute control over interest rates and several more reasons why the Fed should not attempt to exercise the limited power it does have. The one interest rate that the Fed sets is the so-called discount rate. This is the rate on loans of reserves to banks. But banks seldom borrow from the Fed, so this rate mainly is regarded as a (sometimes tardy) signal of the Fed's intentions.

The federal funds rate has received the most attention in the media recently. This is the interest rate that banks charge each other on very short-term (mostly overnight) loans. The main way the Fed influences this rate is through day-to-day variations in the total reserves of the banking system. The Fed alters reserves primarily through buying and selling U.S. government securities on the open market. These reserves constrain the ability of banks to create deposits through lending and thereby limit the availability of money in the private economy. The supply of money can affect other interest rates beside the federal funds rate, but, as we shall see, the relationship is loose. Easy money does not always lead to lower interest rates.

"Let Alan Do It"

Despite the loose linkages between total reserves and the rest of the economy, many persons still expect the Fed to provide stable prices, rapid economic growth, low unemployment, and stable exchange rates. Placing high expectations on the Fed, however, is really an attempt to shift blame for economic problems away from the political arena.

Fiscal policy has been immobilized by the stand-off between the President and Congress over taxing and spending. This dispute has led to large deficits even in boom times and eliminated the possibility of temporarily increasing the deficit to fight the recession. As a result, a recent article in the *Wall Street Journal* claimed that

national economic policy now can be stated in four words: "Let Alan do it."

Enhanced expectations for the Federal Reserve are both unrealistic and dangerous. Such expectations are unrealistic because prices can rise for reasons other than too many dollars chasing too few goods. OPEC price hikes, drought, or higher priced imports all can trigger widespread price increases. Unemployment can be aggravated by wage hikes, demographic changes, and shifts in the structure of demand (such as an alteration in tastes for housing in the Sunbelt rather than in the Snowbelt). Exchange rates can vary because of foreign events and speculation. Finally, some goals conflict. For instance, putting the brakes on growth in the money supply to restore price stability inevitably leads to more unemployment and slower growth, at least temporarily.

Unrealistic expectations for monetary policy are dangerous because they allow the President and Congress to avoid the tough choices—fiscal policies—necessary to enhance economic growth.

The Importance of the Long Term

A large share of our economic growth is dependent on the additions that we make to our productive capacity in terms of new investment in plant and equipment and the new technology that often is embodied in investments. But these investments usually are financed through long-term loans, and it is the long-term rate of interest that most influences the cost of these investments. The long-term rate has been high, and investment has been inadequate for many years.

The Fed's sporadic daily alterations in reserves can influence the federal funds rate and other short-term rates of interest. The Fed seems to have little effect on the long-term rate of interest, however, except insofar as this rate alters the long-term market's expectations of inflation.

International Ties Bind the Fed

The free movement of funds among the major world economies also prevents the Federal Reserve from controlling interest rates independently. If the Fed were to follow a monetary policy much less restrictive than that of the German Bundesbank or the Bank of Japan, the incipient reduction in interest rates in the U.S. would cause an outflow of funds. This so-called capital outflow would counteract the Fed's attempt to expand the money supply. Because exchange rates are flexible as well, the increased financial flows probably would alter the foreign value of the dollar. The direction of exchange rate change is difficult to predict, because exchange rates are very sensitive to expectations. But rapid monetary expansion by the Fed usually is associated with depreciation of the dollar.

Long-term interest rates are affected most directly by the world's propensity to save and invest, by world governments' propensities to spend and tax, and by inflationary expectations. It is important to note that in the last decade the propensities to save in many of the large industrialized countries have declined, and the relatively low propensity to save in the United States hardly has increased.

Meanwhile, governments around the world continue to be large borrowers of funds. Thus, the current worldwide outlook is for long-term interest rates to stay high and for economic growth to remain slow, no matter what the Fed does.

Three Reasons not to Lower Interest Rates

Even if the Fed had absolute control over all interest rates, there are several good reasons why it should not lower them more. First, we already may be on our way out of the current recession. Further monetary expansion simply would add stimulus to the subsequent boom, bringing more inflation. *Maybe* is the operative word here because data collection is not fast enough to indicate the present state of the economy, and our forecasting ability will never be good enough to predict the future state of the economy with precision.

Second, high interest rates sometimes reflect inflationary expectations. Any attempt to bring interest rates down through expansion of reserves may aggravate and ratify the inflationary expectations.

Third, the Fed should avoid changing its monetary stance in the middle of a recession because the effects of a monetary expansion on the economy are subject to variable lags of many months.

A Prescription for the Fed

The lessons from this analysis are clear. The Fed should concentrate more on ensuring steady, noninflationary growth of bank reserves and pay less attention to short-term rates of interest. Were the Fed to announce that this would be its policy and if the Fed were to provide credibility by following its policy, then the Fed would eliminate much of the uncertainty that discourages long-term investment. Instead, the Fed would provide public confidence in long-term price stability that may encourage a higher propensity to save and lower long-term interest rates. Of course, Alan cannot do it all, and fiscal policies also should be changed to encourage more saving and lower government borrowing. Only then would we be able to achieve more economic growth with less inflation.

**This article is excerpted from remarks to the Monetary Policy Round Table, Federal Reserve Bank of Kansas City, April 26, 1991*

The Downturn Cycle: A Measure of the Impact of a Recession

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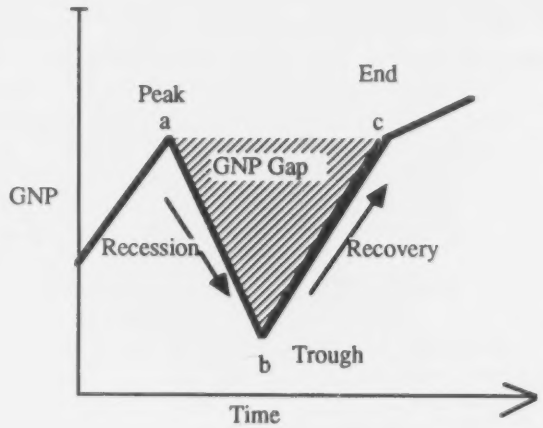
In this article, we present an alternative look at the length of a recession and suggest a crude measure of the economic loss experienced due to a downturn.

The classic definition of a recession is the time from a peak to a trough in economic activity. In Figure 1, the hypothetical recession occurs in the time period from a to b. But the end of a recession is only the start of a recovery period. The end of a recession simply means that deterioration in activity has stopped. Many businesspersons find this a peculiar concept.

Figure 1
GNP Gap Over Recovery Cycle
(Hypothetical)

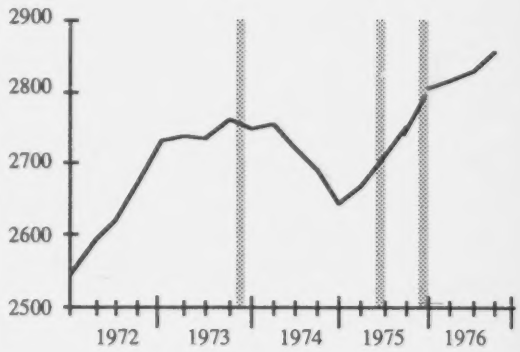


Length of Downturn

A worthwhile question is how long it takes to return to where the recession started. An answer to this question is available in what I call the downturn cycle. A downturn cycle is the period from a peak in economic activity to the next point where we reach the level of the peak. Again, referring to our hypothetical example in Figure 1, the downturn cycle occurs in the time period from a to c. The downturn cycle consists of the recession (a to b) plus the recovery period (b to c).

A downturn cycle is displayed in Figure 2 using data from 1972 to 1976. Figure 3 displays the downturn cycle from 1981 to 1984. The downturn cycle may be a better indicator of economic performance than the recession. A short downturn cycle means that the economy is resilient. A long downturn cycle means that the economy is unable to restore performance.

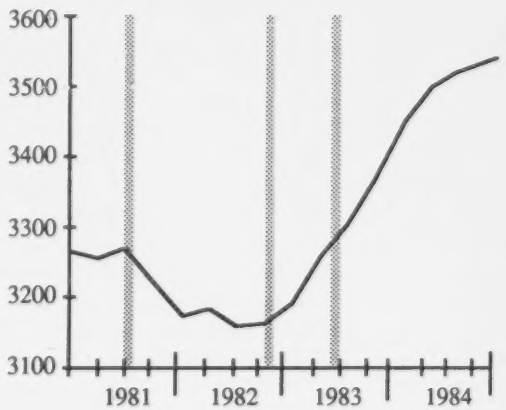
Figure 2
Real GNP 1972-1976
($ billions)



Measuring the Impact of a Downturn Cycle

One could ask whether we would be better with a sharp, deep recession and a quick recovery or a mild recession and a long recovery. One quick-and-dirty approach to the problem is GNP gap analysis. This type of analysis first was popularized in the 1960s. Again, referring to Figure 1, we present a GNP gap analysis for a hypothetical downturn cycle. The gap is the sum of GNP losses from the starting peak levels of GNP over the course of the downturn cycle and is represented by the shaded area.

Figure 3
Real GNP 1981-1984
($ billions)



In Table 1, the gap between real GNP over the downturn cycle is compared to peak GNP at the start of the cycle for two recent recessions. The losses are stated both as percentages and in real dollar terms. The total loss for the recovery cycle also is calculated, as is the average loss per quarter over the cycle.

The dates noted for the start and end of the recession are determined by the National Bureau of Economic Research. The months for the end of the recovery cycles are my own and are strictly rough estimates. The 1981-1983 recovery cycle was slightly shorter than the 1973-1975 cycle, but was more severe and more intense. The total loss was higher in 1981-1983; the loss per quarter was nearly half again as great as it was in the 1973-1975 period.

GNP gap analysis can be modified. One method is to allow for growth in potential GNP over the downturn cycle. The second is to analyze per capita GNP. Even the simple approach we have suggested here, however, is an improvement over the usual recession impact analysis—losses are examined over the full downturn cycle.

Some economists would argue that the gap analysis I have suggested overstates the cost of economic downturns. They argue that recessions have the beneficial impact of purging the economy of weak businesses. Furthermore, future economic growth rates would be enhanced by pruning those weak branches from the economic tree. I am not convinced by this botanical economics argument.

Table 1
Losses Due to Gap in Real GNP
($ billions)

Year and Quarter	Real GNP	Loss from Peak	Percentage from Peak	Notes
		1973-1975		
1973:IV	$2762.8			Peak (Nov.)
1974:I	2747.4	$15.4	0.6%	
1974:II	2755.2	7.6	0.3	
1974:III	2719.3	43.5	1.6	
1974:IV	2695.4	67.4	2.4	
1975:I	2642.7	120.1	4.3	Trough (Mar.)
1975:II	2669.6	93.2	3.4	
1975:III	2714.9	47.9	1.7	
1975:IV	2752.7	10.1	0.4	End (Dec.)
Total Loss		405.2	14.7	
Average Loss		50.6	1.8	8 Quarter Cycle
		1981-1983		
1981:III	$3264.6			Peak (July)
1981:IV	3219.0	$45.6	1.4%	
1982:I	3170.4	94.2	2.9	
1982:II	3179.9	84.7	2.6	
1982:III	3154.5	110.1	3.4	
1982:IV	3159.3	105.3	3.2	Trough (Nov.)
1983:I	3186.3	78.0	2.4	
1983:II	3258.3	6.3	0.2	End (June)
Total Loss		524.2	16.1	
Average Loss		74.9	2.3	7 Quarter Cycle

Housing Units in Nebraska

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Nebraska had a total of 660,621 housing units in 1990 according to the recent *Census of Population*. This total represents a gain of almost 35,800 units or 5.7 percent over 1980. Approximately 8.8 percent (58,258 units) were vacant at the time of the survey. The remaining 602,363 units are occupied by family and nonfamily households.

Comparisons of housing numbers for the nation, West North Central States (WNC), and Nebraska are shown below. Large increases in housing construction in southern and western areas of the Unites States are reflected in the 15.7 percent increase for the nation as a whole. The WNC states as a whole had a larger percentage increase than Nebraska, mainly due to extensive home construction in Minnesota, Missouri, and Kansas.

Housing units increased more rapidly than did the population. This trend is reflected in the decline in average household size. In 1990, the average number of persons living in a Nebraska household (occupied housing unit) was 2.54, down from 2.66 in 1980, 3.0 in 1970, and 3.2 in 1960. In 1990, 66.5 percent of the occupied housing units were inhabited by owners, compared with 68.4 percent in 1980. The percentage of housing units occupied by renters increased from 31.6 percent in 1980 to 33.5 percent in 1990.

Table 1
Selected Housing Data

Area	Total Housing Units (No.)	Percentage Change 1980-1990 (%)	Persons Per Household** 1980 (No.)	1990 (No.)
United States	102,263,678	15.7	2.75	2.63
WNC States*	7,464,752	9.0	2.68	2.55
Nebraska	660,621	5.7	2.66	2.54

*Includes Minnesota, Iowa, Missouri, North Dakota, Kansas, and Nebraska
**Per occupied housing unit

Review & Outlook

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National Outlook

A State of Confusion

It is no wonder that the general public doesn't have much faith in economists. Now when economists are needed the most, economists all are telling different stories. Some state that recovery will start "sometime this summer." Needless to say, this group is vague in their definition of the term *summer*. Some see a prolonged recession with no recovery until late this year. Others say we already are emerging from the recession.

The major problem is that we disagree about how recoveries begin. That is not unreasonable, as recoveries start in many different ways. It at times does appear, however, that economists simply are responding to each fresh news headline. Each group of economists (or, for that matter, nearly each economic forecaster) has favorite indicators to examine.

Allow me to cut through all the confusion by presenting my own favorite indicators. I then will attempt to so obfuscate the issues that you won't know where I stand. Such eloquence on my part will put me in the mainstream of current economic practice.

Major Indicators

Consumer Confidence - Both major measures of consumer confidence, one supplied by the Conference Board and the other supplied by the University of Michigan, rebounded in March when the war ended. Since that time, both indexes have shown some deterioration in consumer confidence. At this point, we remain well below year-ago levels. It is a great disappointment that consumer confidence has failed to progress from its March levels, for consumer confidence holds the key to our economic recovery.

Housing Starts - One of the few success stories in the early part of this year has been the recovery in housing starts. Although housing starts are still below the one-million-units-at-annual-rate level, it does appear that they at last have turned the corner. After setting a low in January, housing starts have made wobbly progress throughout the early months of this year. In April, housing starts advanced 6.2 percent. We must be somewhat cautious in viewing this result, however, because a recovery in housing starts can precede the economic recovery by several months. Further, housing start patterns are spotty. One region can soar while another is still in a downturn. April housing starts were strongest in the western region of the U.S., increasing 25.3 percent above a year ago.

Auto Sales - Perhaps the biggest disappointment has been the failure of auto sales to rally. There was a hope that returning troops would flock to the showrooms and buy new cars. Some may have visited their local, friendly real estate agent instead. A small advance in mid-May sales over the miserable levels of the year-ago period hardly is cause for rejoicing. The first half as a whole will be well below year-ago levels. It is difficult to envision any economic recovery whatsoever without a recovery in automobile sales. We all are waiting for that shoe to drop.

Other Major Indicators

The Industrial Production Index verifies the economic downturn. The Industrial Production Index is a concurrent economic indicator. Despite the 0.1 percent rise in April, industrial production is 3.4 percent below year-ago levels. Basically, the industrial production series has plateaued at a low level. This low is induced, in part, by low automobile production levels. Once again, a turnaround in auto sales with a commensurate turnaround in automobile production will help breathe life into the industrial production series.

Unemployment - There was a surprise in April. The unemployment rate statistics decreased 0.2 percentage points and stood at 6.6 percent. This figure widely is regarded as an aberration, and it broadly is expected that the unemployment rate will increase in May. You will see that report before you see the current issue of *Business in Nebraska* .

Table I
National Indicators

	Annual		Quarterly (SAAR)				
	1989	1990	1990:I	1990:II	1990:III	1990:IV	1991:I
Real GNP (% change)	2.5	1.0	1.7	0.4	1.4	-1.6	-2.6
Real Consumption (% change)	1.9	0.9	1.1	0.2	2.7	-3.4	-1.3
Housing Starts (millions)	1.4	1.2	1.4	1.2	1.1	1.0	0.9
Auto Sales (millions)	9.9	9.5	9.7	9.5	9.7	8.9	8.2
Interest Rate (90 day T-bill)	8.1	7.5	7.8	7.8	7.5	7.0	6.1
Unemployment Rate (%)	5.3	5.5	5.3	5.3	5.6	5.9	6.5
Money Supply, M2 (% change)	3.7	5.2	2.2	3.9	3.0	2.1	3.6
Industrial Production Index (1987=100)	108.1	109.2	108.3	109.4	110.5	108.5	105.8

NOTE; SAAR—seasonally adjusted at annual rates
Source: Bureau of Economic Analysis

Retail Sales - Retail sales in April dropped 0.1 percent. But the real story is that retail sales jumped in February and then leveled. Thus, as one would expect, the retail sales level is mimicking the behavior of the consumer confidence indexes.

An Obscure Index

One of my favorite obscure indexes is the paperboard production index. Paperboard widely is used to package a broad range of products and, thus, it is felt by some that it imitates what is happening in industrial production. After peaking in January, paperboard production plummeted. Currently, the March level of paperboard production is well below 1988 levels. The paperboard production series is an interesting one, but essentially it reflects the behavior of the industrial production series.

What We Can Expect From the Fed?

In the process of looking for a solution to the current malaise, many have focused on the Federal Reserve lowering interest rates as a cure-all. Not all economists agree with this prescription. For example, see the article by Craig MacPhee in the current issue of this newsletter.

The Fed can and does control short-term interest rates. Short-term rates are low, especially in comparison to rates in other countries. Changes in long-term rates are more vital to the economy. Long-term rates are affected less by short-term changes in monetary policy.

In my opinion, those calling for still lower interest rates only are diverting attention from our inability to get our federal government fiscal policy in order.

What Can Be Done?

There's an easy answer and a hard answer to this question. The easy answer is that we need to boost consumer confidence. The hard answer is the precise prescription for doing this. Because the problems in the Middle East were associated directly with the major rundown in consumer confidence, perhaps we could point to demonstrated progress toward peace in the Middle East as a great boost for failing consumer confidence. If consumer confidence can be increased, then an increase in automobile sales likely will follow.

Housing starts seem to be able to take care of themselves. They will respond and, for that matter, they have responded to lower long-term interest rates. The latter should result from a lowering of the overall inflation rate.

When will all of this happen? The simple answer is also the hard answer—who knows? An economic forecast is, in part, a political forecast. My heart hopes for a quick solution. My head tells me that it may take some time. It is possible that a recovery may not begin until late this year. For the time being, I'll ally myself with those calling for a summer (vaguely defined) start of a recovery. Is that obscure enough?

Other Economic News

There has been good news on the inflation front. Essentially, the energy price bubble that was experienced during the Middle East war has worked its way through the system. At this writing, in early June, west Texas crude intermediate wholesale prices are about $21.00 per barrel. Although that is greater than the $18.00 per barrel year-ago figure, it is well below the peak prices of the war.

Consequently, the Consumer Price Index advanced a mere 0.2 percent in April, a figure mirrored by the Producer Price Index. The Consumer Price Index was

Table II
Employment in Nebraska

	Revised March 1991	Preliminary April 1991	April % Change vs. Year Ago
Place of Work			
Nonfarm	752,416	760,418	4.7
Manufacturing	100,638	100,756	4.2
Durables	49,204	49,562	2.3
Nondurables	51,434	51,194	6.1
Mining	1,654	1,876	15.0
Construction	27,497	29,963	14.2
TCU*	45,546	45,660	0.3
Trade	188,400	190,827	3.0
Wholesale	51,277	51,903	-2.5
Retail	137,123	138,924	5.3
FIRE**	49,446	49,553	2.9
Services	189,238	191,415	8.3
Government	149,997	150,368	3.0
Place of Residence			
Civilian Labor Force	857,815	862,161	3.1
Unemployment Rate	2.8	2.4	

* Transportation, Communication, and Utilities
** Finance, Insurance, and Real Estate

Source: Nebraska Department of Labor

Table III
Price Indices

	April 1991	% Change vs. Year Ago	YTD % Change vs. Year Ago
Consumer Price Index - U* (1982-84 = 100)			
All Items	135.2	4.9	5.2
Commodities	126.4	4.1	4.3
Services	144.7	5.5	5.9
Producer Price Index (1982 = 100)			
Finished Goods	120.9	3.3	3.3
Intermediate Materials	114.0	1.1	2.0
Crude Materials	101.2	-1.4	-0.2
Ag Index of Prices Received (1977 = 100)			
Nebraska	160	-3.0	-2.8
Crops	118	-9.2	-10.9
Livestock	187	0.5	1.2
United States	149	-1.3	-3.0
Crops	131	0.0	-4.5
Livestock	166	-2.4	-2.2

U* = All urban consumers
Source: U.S. Bureau of Labor Statistics, Nebraska Department of Agriculture

Table IV
City Business Indicators
February 1991 Percent Change from Year Ago

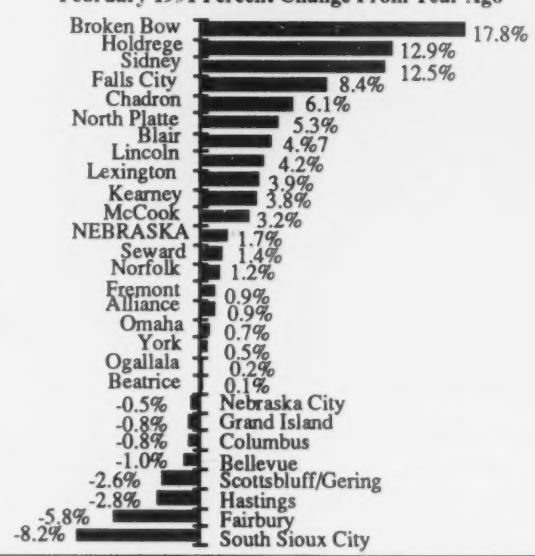
The State and Its Trading Centers	Employment (1)	Building Activity (2)
NEBRASKA	3.1	-15.7
Alliance	0.5	97.9
Beatrice	0.4	-32.6
Bellevue	6.0	-44.2
Blair	6.0	99.0
Broken Bow	2.4	1739.8
Chadron	-2.3	408.4
Columbus	1.6	-20.2
Fairbury	3.7	-82.3
Falls City	0.9	-5.7
Fremont	-2.5	-23.8
Grand Island	2.0	8.2
Hastings	0.0	-23.5
Holdrege	5.8	76.8
Kearney	3.0	27.2
Lexington	-1.0	84.2
Lincoln	4.9	-5.1
McCook	5.4	4.1
Nebraska City	0.9	-64.7
Norfolk	-0.2	6.5
North Platte	-1.2	115.0
Ogallala	-2.2	149.0
Omaha	6.0	-29.9
Scottsbluff/Gering	3.6	-70.5
Seward	0.0	-32.6
Sidney	3.9	656.4
South Sioux City	4.2	-67.1
York	-3.3	58.9

(1) As a proxy for city employment, total employment (labor force basis) for the county in which a city is located is used

(2) Building activity is the value of building permits issued as a spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Cost Index is used to adjust construction activity for price changes

Sources: Nebraska Department of Labor and reports from private and public agencies

Figure I
City Business Index
February 1991 Percent Change From Year Ago



4.9 percent ahead of the year-ago figure, while the Producer Price Index increased only 3.2 percent. For the time being, inflation worries are allayed somewhat.

The trade deficit showed one of the best figures in many years. The trade deficit showed an eight year low. This figure directly relates to what has happened to recent GNP figures. The latest figure for GNP shows a decrease of 2.6 percent in the first quarter. While the consumption sector was weak, especially consumer durables, the major weakness was in the investment block, both in the residential and nonresidential areas. The only strength shown in GNP was the net export figures. These strong net export figures kept the economy from plunging even deeper. If there had been no change in the net export figures, then first quarter GNP would have decreased about 4.0 percent.

The savings rate is essentially in the cellar. Latest data reveal that personal saving fell from 4.0 percent of disposable personal income in February to 3.7 percent in March. These are the lowest levels for saving since November 1988. See Wallace Peterson's article in this newsletter for an analysis of the saving problem.

Consumer credit fell 1.5 percent, seasonally adjusted at annual rates, in March. The consumer credit series has shown four consecutive months of continuing decrease. The consumer credit decreases reflect the overall malaise of the economy.

In the realm of good news, productivity advanced 1.0 percent in the first quarter. This is an unusual event in the midst of a recession. Typically, employers are slow to lay off employees in a recession. Lower production and excess employment then lower productivity levels.

The Nebraska Outlook

The job growth figure for the month of April showed another 4.7 percent increase above year-ago levels, continuing a string of such increases first noted in January. The workforce series has made a shift above last year's level. While most notable in the January figures, the shift began toward the end of last summer.

Only wholesale trade employment showed a downturn in April, dropping 2.5 percent versus year-ago levels. Big gainers were in the major employment series of services, showing an 8.3 percent rise, and construction, showing a 14.2 percent rise.

The rise in construction employment is mystifying, as construction contracts continue to lag behind last year's levels according to F.W. Dodge. Construction contracting set a blistering pace for the first nine months of last year.

At present, the total value of construction contracts is 21.0 percent below year-ago levels through the month of April. Nonresidential building is off 50.0 percent. Residential construction is down 15.0 percent, while nonbuilding construction advanced 3.0 percent.

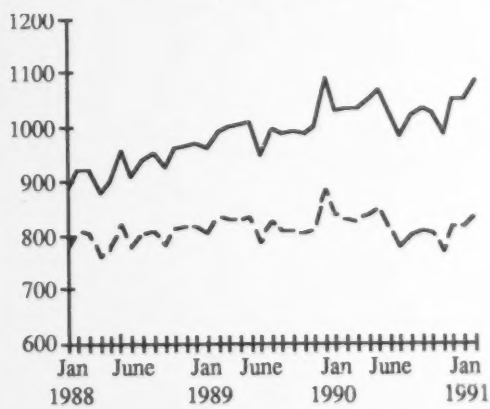
Some signs of strength have begun to show in housing starts. For April, housing starts, a count of

Table V
Net Taxable Retail Sales of Nebraska Regions and Cities

Region Number and City (1)	City Sales (2) February 1991 (000s)	City Sales (2) % Change vs. Year Ago	Region Sales (2) February 1991 (000s)	Region Sales (2) % Change vs. Year Ago	Region Sales (2) YTD % Change vs. Year Ago
NEBRASKA	$810,739	6.9	$912,043	5.2	0.6
1 Omaha	283,780	3.6	339,688	1.5	-2.7
Bellevue	10,950	2.2	*	*	*
Blair	4,416	1.2	*	*	*
2 Lincoln	104,462	9.5	121,050	9.8	1.9
3 South Sioux City	5,042	-6.7	6,567	-4.9	-4.4
4 Nebraska City	3,603	13.9	16,091	5.5	2.0
6 Fremont	15,743	11.9	27,106	5.7	3.8
West Point	2,829	11.7	*	*	*
7 Falls City	2,053	23.6	8,270	9.7	5.7
8 Seward	4,016	11.9	13,278	9.2	-0.7
9 York	5,262	3.5	12,249	-3.3	0.3
10 Columbus	13,742	3.2	25,408	4.7	2.1
11 Norfolk	16,509	6.6	29,423	1.1	3.1
Wayne	2,818	18.1	*	*	*
12 Grand Island	29,959	-0.7	42,252	-0.2	-1.3
13 Hastings	13,785	0.8	22,542	3.5	2.3
14 Beatrice	7,310	8.7	15,846	2.9	-0.3
Fairbury	2,443	6.3	*	*	*
15 Kearney	17,191	7.4	24,453	7.7	9.6
16 Lexington	5,657	7.6	14,542	2.5	2.6
17 Holdrege	4,650	22.1	7,575	11.8	6.9
18 North Platte	14,099	9.3	17,645	5.4	6.3
19 Ogallala	4,203	-3.7	9,422	-9.0	-6.6
20 McCook	6,818	5.6	9,660	9.1	7.1
21 Sidney	3,484	6.5	7,069	3.5	5.3
Kimball	1,679	12.7	*	*	*
22 Scottsbluff/Gering	16,158	8.3	23,683	8.9	7.8
23 Alliance	4,412	-1.8	11,390	0.4	3.1
Chadron	2,249	2.4	*	*	*
24 O'Neill	3,244	-5.5	11,631	1.1	5.2
Valentine	2,362	17.1	*	*	*
25 Hartington	1,425	15.3	7,065	3.2	3.1
26 Broken Bow	3,317	10.5	9,998	-1.4	-1.1

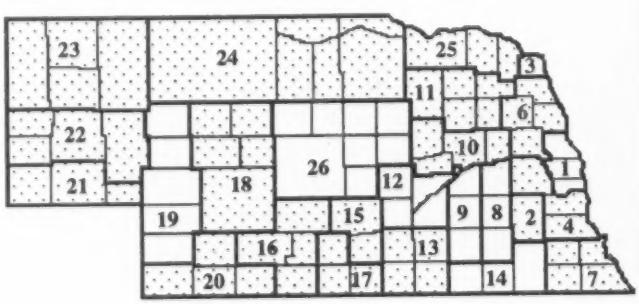
(1) See region map
(2) Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales
*Within an already designated region
Compiled from data provided by the Nebraska Department of Revenue

Figure II
Nebraska Net Taxable Retail Sales
(Seasonally Adjusted, $ Millions)



(1) The Consumer Price Index (1982-84 = 100) is used to deflate current dollars into constant dollars. Solid line indicates current dollars; broken line indicates constant dollars

Figure III
Region Sales Pattern
YTD as Percent Change from Year Ago



Shaded areas are those with sales gains above the state average. See Table V for corresponding regions and cities

units, exceeded last year's levels for the first time this year. April was 6.0 percent ahead of last year's level. Nevertheless, housing starts on a year-to-date basis are down 32.0 percent versus year ago through April. January 1990 was a boom month. It will take some time to catch up with that flurry of activity.

The unemployment situation remains good in Nebraska. In March, Lincoln shared honors with Iowa City, Iowa for the lowest metropolitan unemployment rate in the nation. At that time, Lincoln's unemployment rate stood at 2.0 percent.

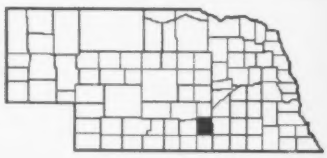
Lincoln's unemployment rate decreased in April to 1.9 percent. Nebraska as a whole continues to experience low unemployment levels, with the state averaging 2.4 percent for April, well under half the U.S. rate.

While there was some concern about moisture conditions early in the year, Nebraska has been experiencing one of the wettest springs in recent memory. All but the southeast crop reporting district showed above normal levels from April 1st through May 24th. There have been some planting problems resulting from the moisture levels, but the improvement in subsoil moisture is a relief to all.

Net taxable retail sales in Nebraska bounced back in February from their January doldrums (Table V). Overall sales increased 5.2 percent in February. The strength of the rebound was in the nonmotor vehicle area. The year total now shows a slight positive of 0.6 percent for the first two months versus last year. As inflation has been in the 5.0 percent area from early 1990 to 1991, real net taxable retail sales are still behind last year's levels (Figure II).

County of the Month

Adams



Hastings—County Seat

License plate prefix number: 14
Size of county: 562 square miles, ranks 68th in the state
Population: 29,625 in 1990, a change of -3.4 percent from 1980
Median age: 34.3 years in Adams County, 33.0 years in Nebraska in 1990
Per capita personal income: $16,256 in 1989, ranks 19th in the state
Net taxable retail sales ($000): $225,778 in 1989, a change of +2.4 percent from 1988; $33,773 during January-February 1990, a change of +1.7 percent from the same period one year ago
Number of business and service establishments: 881 in 1988; 52 percent had less than five employees
Unemployment rate: 2.6 percent in Adams County, 3.1 percent in Nebraska for 1989
Nonfarm employment (1989):

	State	Adams County
Wage and salary workers	705,672	14,194
	(percent of total)	
Manufacturing	13.4%	19.5%
Construction and Mining	3.6	3.6
TCU	6.5	3.6
Retail Trade	18.5	19.3
Wholesale Trade	7.6	8.2
FIRE	6.8	2.4
Services	23.7	24.2
Government	19.9	19.2
Total	100.0%	100.0%

Agriculture:
Number of farms: 780 in 1987, 747 in 1982
Average farm size: 470 acres in 1987
Market value of farm products sold: $103.4 million in 1987 ($132,537 average per farm)

Sources: U.S. Bureau of the Census, U.S. Bureau of Economic Analysis, Nebraska Department of Labor, Nebraska Department of Revenue

Merlin W. Erickson

Business in Nebraska

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